AMERICAN STORES COMPANY

ANNUAL REPORT 1979

The new American Stores Company was created through the combination of the former American Stores Company with Skaggs Companies, Inc. on July 26, 1979. Skaggs, as the surviving company, changed its name to American Stores Company coincident with the merger. A wholly-owned subsidiary, Skaggs Companies, Inc., was subsequently organized. American Stores Company is a holding company whose principal operating subsidiaries, in addition to Skaggs Companies, are Alpha Beta Company, Acme Markets, Inc., and Rea and Derick, Inc. Operations are focused on grocery, drug, and large combination grocery/drug stores.

On a pro forma basis, the combined Company would have reported sales for the past year of $6.1 billion, assuming that the combination had occurred at the beginning of the fiscal year. Thus, American Stores is one of the nation's leading retailers. As of February 2, 1980, the Company operated over 1,100 stores in 28 states, including portions of the East, South, Midwest and West, with particular concentration on growth areas of the nation's "Sun Belt." The Company also operates the warehouse, distribution and processing facilities required to support its retail operations.

The Company's stores have achieved a high degree of recognition in their various markets. American Stores' management approach is decentralized and profit center oriented. As for merchandising, the Company believes in providing consumers with convenience, service, quality and value, and effectively promotes these advantages. American Stores has over 62,000 total employees.

Presently headquartered in Wilmington, Delaware, it is anticipated that the corporate headquarters will be relocated to Salt Lake City, Utah prior to mid-year. The Company's common and preferred shares are listed on the New York, Philadelphia and Pacific Stock Exchanges under the trading symbol ASC. There are approximately 12,000 shareholders.

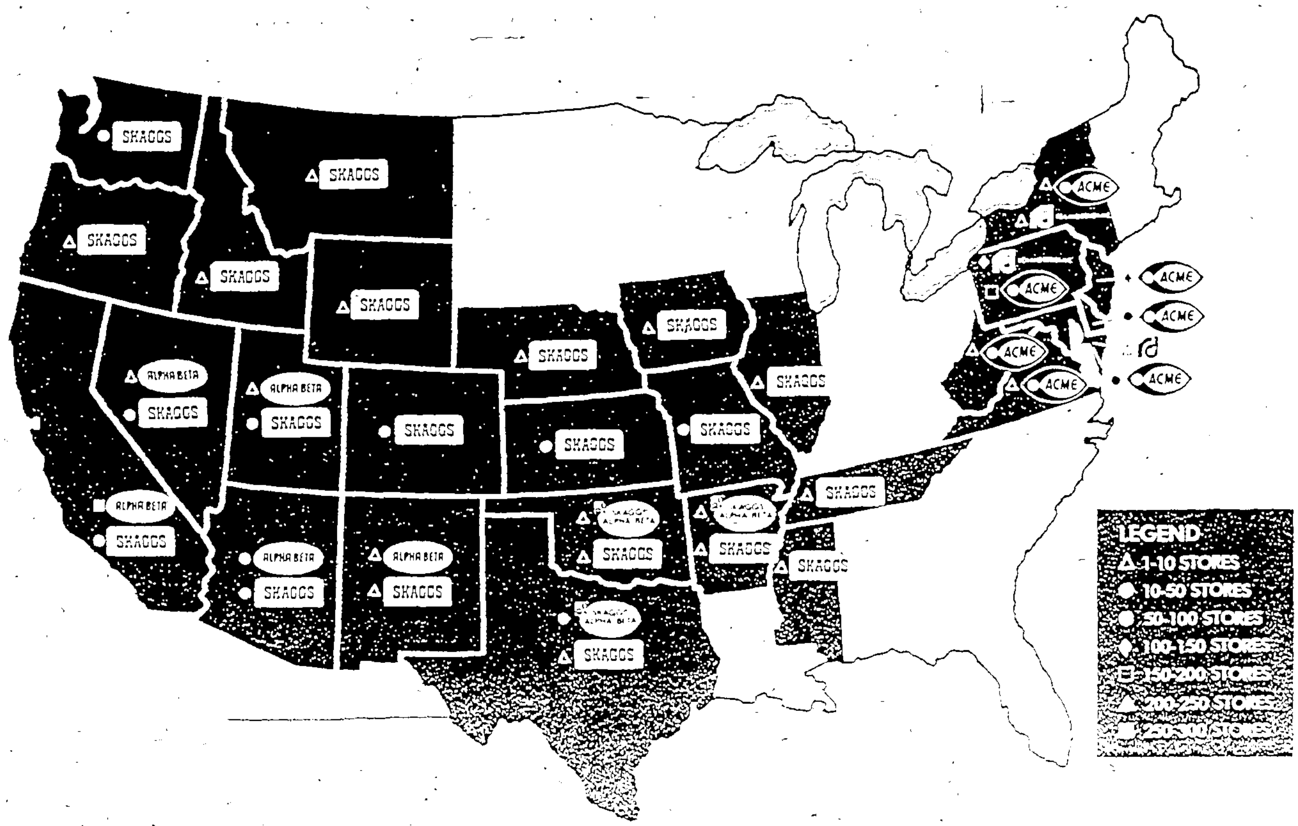
Contents

Financial Highlights

Fiscal years ended February 2, 1980 and December 28, 1978

	53 Weeks 1979	52 Weeks 1978
Sales	$3,786,332,000	$1,089,909,000
Net Earnings	$44,434,000	$25,043,000
Per Share	$4.36	$3.14
Dividends Declared Per Share		
Common	$.80	$.725
Preferred	$3.465	—
Common Shareholders' Equity	$214,137,000	$137,714,000
Return on Common Shareholders' Average Equity	22%	20%
Average Common Shares Outstanding	8,844,000	7,976,000

ANNUAL MEETING: The annual meeting of shareholders will be held at 310 Bearcat Drive, Salt Lake City, Utah on Thursday, May 22, 1980 at 10:00 a.m.



Dear Shareholder:

April 7, 1980

The combination of the former American Stores Company with Skaggs Companies, Inc. marked a major turning point for both companies and created a strong, broadly based, new American Stores Company. We are enthusiastic about the prospects for this expanded corporation and believe that we have significantly enhanced our long-term ability to grow and prosper.

The two merger partners were both substantial presences in retailing. The old American Stores Company was one of the country's leading food chains with a history dating back 89 years. Its primary involvement was on the East Coast and California. The first Skaggs store opened 40 years ago, and Skaggs was known as the nation's third largest drug chain and as an operator of large combination grocery/drug stores. Skaggs Companies operates in 21 states, primarily in the West, Southwest and Midwest.

We believe that together these two well-established companies, with their complementary resources, are stronger than each would have been alone. However, before discussing the merger in greater detail, and our plans for the future, we should review some highlights of the year just concluded.

It is fitting that the new American Stores Company should begin its existence with favorable results which will be the forerunner, we expect, of even more positive developments to come. Sales for the year ended February 2, 1980, were $3,786,332,000, up from $1,089,909,000 in the prior year. Net earnings totaled $44,434,000, equal to $4.36 a share versus $25,043,000, or $3.14 a share last year.

The merger was accomplished on a purchase basis, and the operating results of the former American Stores Company are included in these statements only from the purchase date, July 26, 1979. Thus, operating results between the two years are not directly comparable. In order to address this situation and provide shareholders with a comparative assessment, we have prepared sales, earnings and earnings per share on a pro forma basis. For this purpose, we have assumed that the merger occurred at the beginning of 1978. A full review of the accounting treatment is contained in Management's Discussion and Analysis and in certain footnotes to the financial statements.

On a pro forma basis, sales for the year would have been $6,120,963,000, a 19 percent increase over $5,138,404,000 a year ago. Net earnings would have been $62,782,000, equal to $5.29 a share, 31 percent above $50,447,000, or $4.03 a share in the prior year.

This year the Company has changed its fiscal year from the Thursday closest to December 31 to the Saturday closest to January 31, or February 2, 1980. We believe that this change will be advantageous from a reporting and control standpoint, and the new combination makes such a change timely and appropriate.

Looking for a moment at the fourth quarter of 1979, a fourteen week period ended January 3, 1980, sales were $1,694,111,000 compared with $336,751,000 in the corresponding period a year earlier which had thirteen weeks. Net earnings for the quarter were $18,586,000, equal to $1.67 a share as against $10,025,000 or $1.26 a share a year ago. Pro forma sales for the same period would have been $1,694,111,000 compared with $1,417,734,000 in the prior year. Net earnings on a pro forma basis would have been $18,586,000, equal to $1.62 a share versus $15,146,000 or $1.27 a share in the same quarter of 1978.

The gains achieved by American Stores Company reflected our broadly-based strength and the favorable balance of our operations. Retailing is our predominant business, serving many different markets with various sizes and types of units. Our stores continue to make good progress, and sales strength was evident in the fourth quarter. This performance was particularly gratifying in view of the sluggish nature of the general economy and the intensification of price and promotional competition in many marketing areas served by the Company.

In contemporary retailing, there has been a growing trend toward the addition of general merchandise to the grocery store, and our desire to foster the rapid development of additional large combination grocery/drug stores was an important consideration in the merger. The modern consumer lives an active, fast-paced life and increasingly needs and desires the convenience of "one-stop" shopping. This approach enables the retailer to meet the needs of his customers for a full range of products—grocery, pharmacy and a variety of general merchandise items—in one at-

tractive and convenient large combination format. The constraints of the present energy situation, and the impact of rising gasoline prices on lifestyles, make the rationale for such a store all the more compelling.

For more than ten years, Skaggs Companies has been involved in pioneering the development of such large combination stores. The Company saw the opportunity to develop additional such grocery/drug units, but also recognized the need to enhance its grocery management capabilities and also to strengthen its "backstage" resources in processing and distribution. These elements were added through the merger, and we look forward to their effective utilization and to the development of new stores, including the large combination stores which incorporate many diverse lines of merchandise under one roof. These combination units will be opened not only by Skaggs Companies, but also by Alpha Beta and Acme which now have the tools to successfully operate such a complex enterprise.

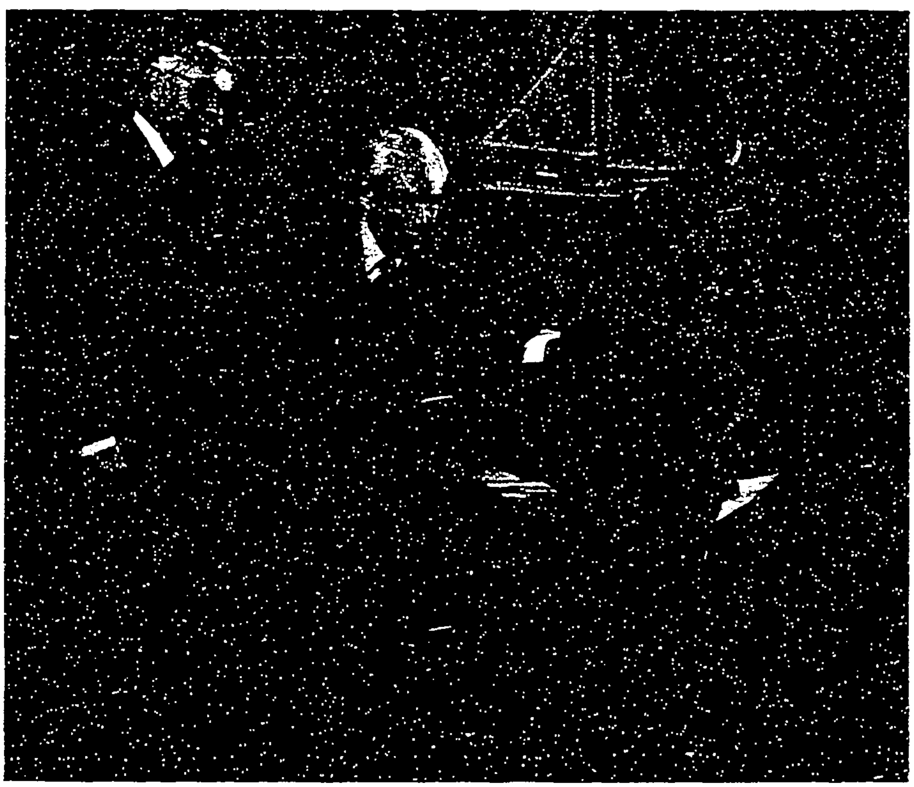
We believe that this merger will prove beneficial, and that the resulting Company has greater flexibility, breadth and depth, plus the ability to do more things and to do them more effectively. We are now better prepared to address the challenges of growth and to be an even more vigorous and effective competitor.

Both companies were well diversified geographically, and the new American Stores Company has excellent balance in its geographic base which stretches from coast to coast, with stores located in 28 states. The total number of stores is in excess of 1,100. The result of the merger is, in our view, an entity with a sum greater than its parts.

During the past year, we opened 53 new stores ranging in size from 25,000 square feet to 100,000 square feet. Operated by Skaggs, Alpha Beta and Acme, these stores sell a variety of grocery, drug and general merchandise. Additionally, five Rea and Derick drug stores were opened. In Alpha Beta Company, six Alphy's restaurants were opened. Most of these restaurants are full service and offer a limited menu at popular prices.

We believe that the successful retailer must continually invest in improving a store base through openings, enlargements, remodeling and refurbish-

William R. Deeley, John Hartman and L.S. Skaggs



ing as warranted. All of our units are intensively reviewed and analyzed with the objective of maximizing returns. Last year, 138 stores were closed. These included 75 obsolete Acme markets in upper New York State and western Pennsylvania which were closed in the first half of 1979 prior to the merger. The net effect of these programs has been to further strengthen the total store base. In addition, work continues to improve the support facilities for all stores.

Looking ahead, we have another active expansion program scheduled. We anticipate opening 57 stores, most in excess of 30,000 square feet, 11 Rea and Derick drug stores and four restaurants in the current fiscal year. Forty of these stores and 8 Rea and Derick drug stores are presently under construction. The major part of the store opening program will be concentrated in the "Sun Belt" states, which generally possess vigorous economies and growing populations. Our expansion program also benefits from our established position in many markets, which minimizes the need for costly new market development. Given present economic and monetary conditions, we are closely monitoring our store development program. Capital expenditures this year are expected to approximate $130 million.

During the past year, American Stores Company paid out $14.1 million in common and preferred dividends which amounted to 31.7 percent of reported net earnings. On a pro forma basis, assuming the combination at the start of the year, the total pay-out would have approximated $19 million, or 30 percent of pro forma net earnings.

In recent developments of importance, the Board of Directors has approved our recommendation that the headquarters of American Stores Company be relocated to Salt Lake City, Utah no later than June 16, 1980. Such a move was originally planned for after two years of the effective merger date, and the primary reason for advancing the timetable was to accelerate the consolidation of the corporate organization. This move will lead to greater operating efficiencies and permit us to capitalize more effectively upon our perceived growth opportunities.

In conjunction with this action, William R. Deeley will be based in the Delaware Valley and has assumed the position of Vice Chairman. As of February 6, 1980, L. S. Skaggs assumed the additional duties of President and Chief Executive Officer of American Stores Company.

Our Board of Directors has been considerably strengthened by the addition of two new directors, an action which occurred at the January 24, 1980 meeting of the Board. They are Mitchell Melich and Elder L. Tom Perry. Mr. Melich is a practicing attorney and had previously served as solicitor of the Department of the Interior and as a member of the Utah Senate. Elder Perry is a member of the Council of Twelve Apostles of the Church of Jesus Christ of Latter-day Saints. He has been extensively involved in department store retailing in New York and Boston.

We continue to be encouraged by the Company's prospects. We recognize, however, that the present economic climate will be more difficult than in the prior twelve months. During the year, we intend to extend our use of the LIFO (last in, first out) method of inventory valuation to Skaggs stores. The method will be used for non-perishable grocery inventory, as presently is done with Acme and Alpha Beta. Pharmacy items will not be included in the program at this time, and we believe that the impact of this change on earnings will not be significant. The expenses related to the merger are now behind us except for those which typically must be capitalized.

The past year has been one of significant accomplishment, and it is our conviction that the Company now has substantially improved prospects for consistent growth and increased profits.

At this time, we wish to thank our employees for their contribution during a trying period when important changes were made. Special thanks are also in order to our shareholders for their support. If any of you have questions, please feel free to contact us. Inquiries may be addressed to Doris M. Ulrich, assistant to the Corporate Secretary, at the corporate headquarters.

It is exciting to begin a new decade as a new Company which possesses a history of accomplishment and a broad and well-established market position. We intend to build on these resources and to expand and improve the quality and efficiency of our operations, and in so doing, to enhance the value of our shareholders' investment.

L. S. Skaggs
Chairman of the Board,
President and Chief
Executive Officer

William R. Deeley
Vice Chairman of
the Board

John Hartman
Vice Chairman of
the Board

Skaggs Develops The Combination Store

Since early in the seventies, Skaggs Companies has been a pioneer in the development of the first successful large combination grocery/drug stores. This was an entirely new type of store that brought together a complete drug store and a full grocery store under one roof, including a broad line of general merchandise, with one common bank of checkstands. This concept, with its wide appeal and obvious convenience, won immediate acceptance from the public in a large number of geographic areas. The combination stores range in size from 46,000 square feet to 70,000 square feet of floor space, providing approximately equal emphasis to food as to drug and general merchandise.

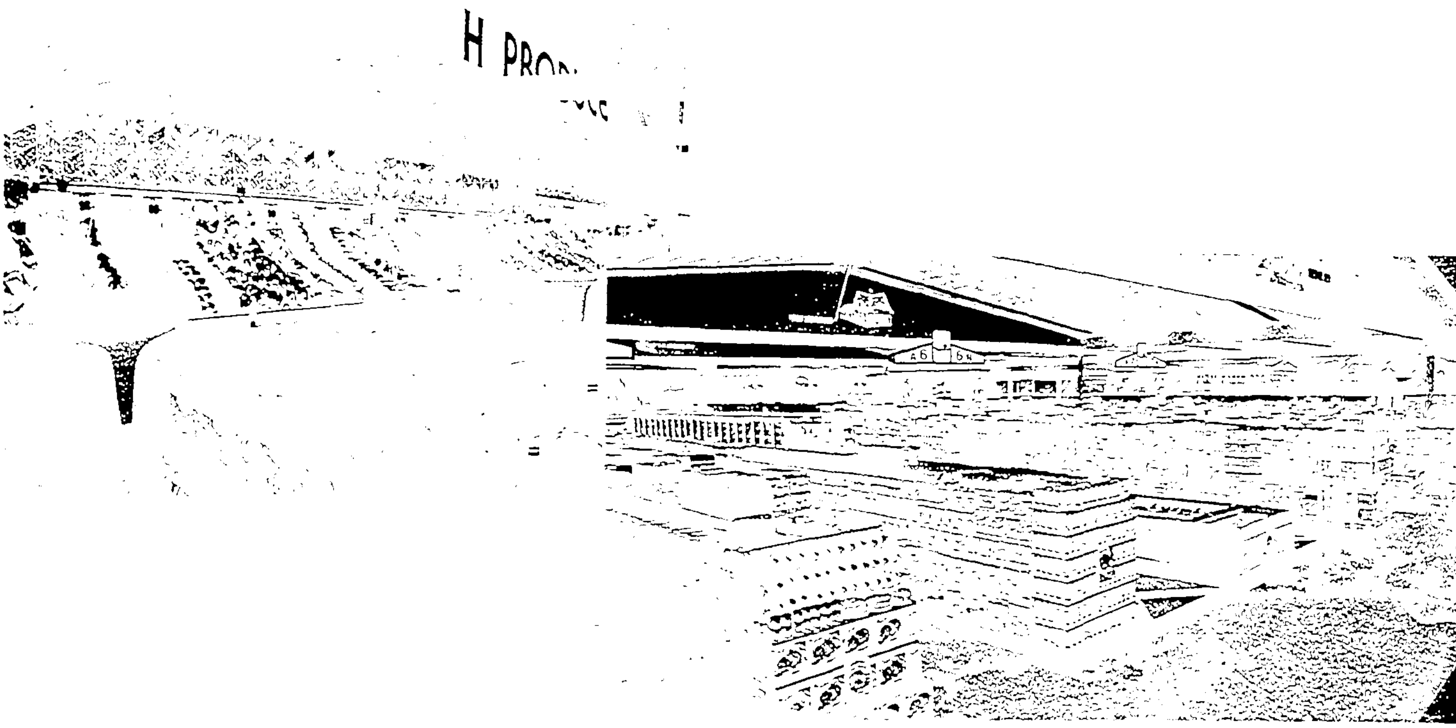
For today's busy, active consumer, the combination store has obvious advantages and appeal, including the opportunity to take care of many shopping needs in one gas-saving trip. Within the store, the customer finds a broader selection of drug and general merchandise than is available in the standard supermarket. The stores are value-oriented and offer high quality name brands. Added convenience is provided by such options as attractive in-store dining facilities and complete take-out food service from the delicatessen.

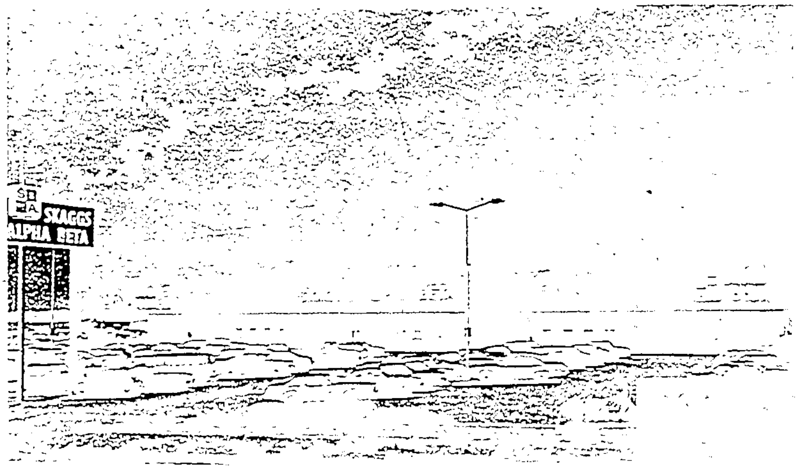
Current social and economic trends clearly favor these large, convenient and comprehensive units which unite the strengths of two basic retailing concepts, the supermarket and the drug store.

Following the merger, Skaggs has successfully integrated the "Alpha Beta" name into seventeen Skaggs market areas by utilizing the name on 44 combination grocery/drug stores. In several established markets, the Alpha Beta name was combined with Skaggs as Skaggs Alpha Beta. In other areas where our combination stores were a relatively new concept, store names have been changed from Skaggs Supercenters to Alpha Beta Supercenters. Where the combination store is being introduced for the first time, the Alpha Beta name is used in order to provide a clear distinction from the Skaggs Drug Centers. The Alpha Beta name is well and favorably known in the grocery field, and its use provides management with enhanced flexibility to respond to market needs. The integration of the Alpha Beta name has been well received in all markets.

The combination store concept will be the focus for future growth. Four new combination stores were opened during the past year and were successfully introduced into markets which previously had been exclusively dedicated to super drug stores. At year-end, Skaggs was operating 44 combination grocery/drug units in six states.

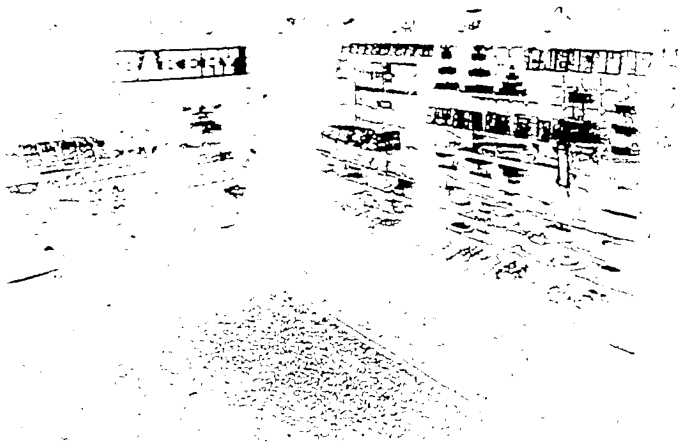
In the coming year, combination store development will be accelerated, and a significant number of new store openings is projected. In addition to Skaggs Companies, Alpha Beta and Acme will be planning new combination units to further strengthen our network of stores.

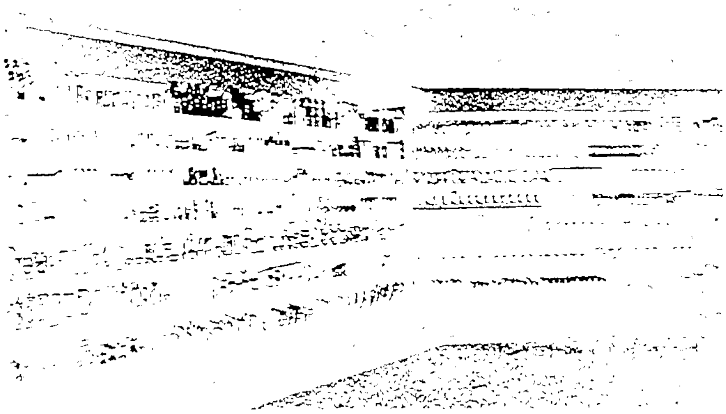


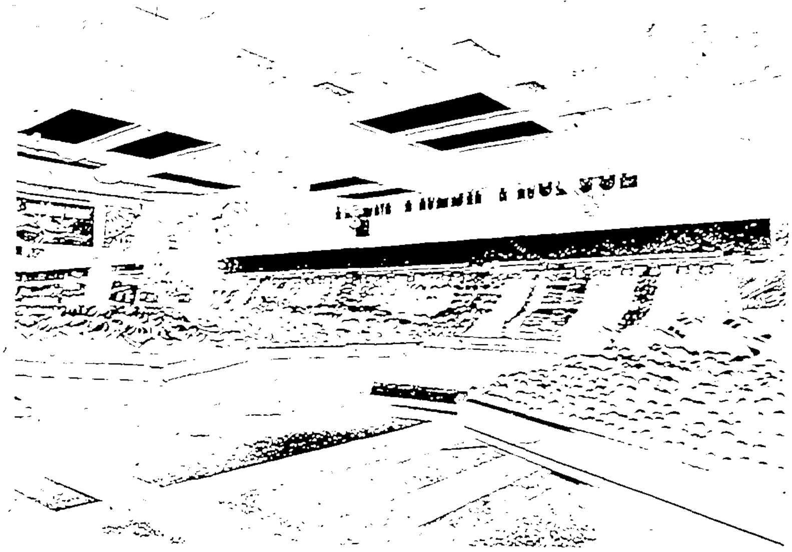


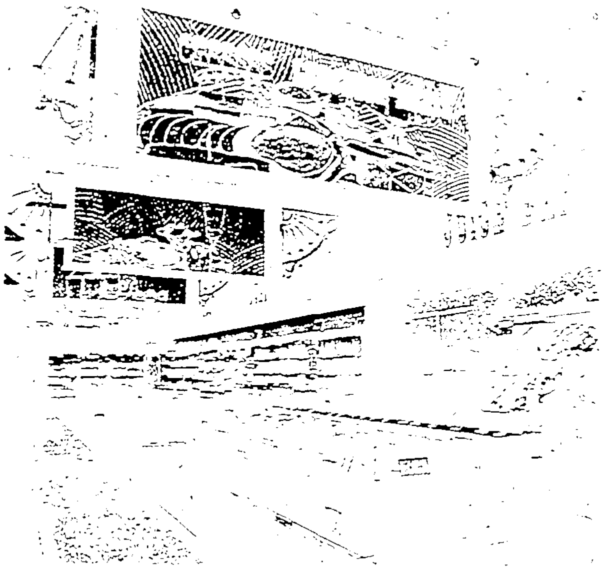
The Combination Store provides approximately equal emphasis to general merchandise as to food and drug.

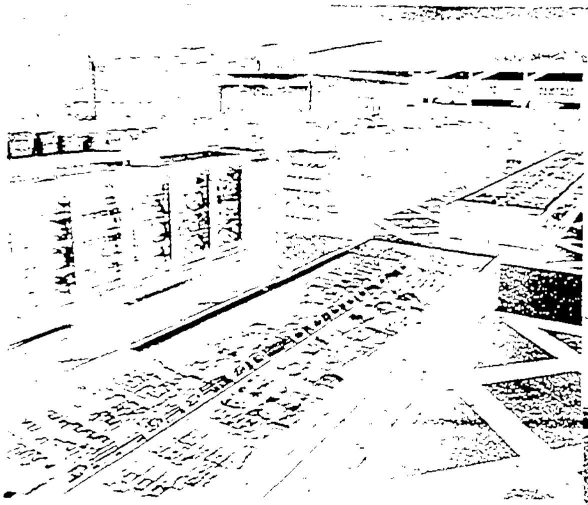
The Combination Store

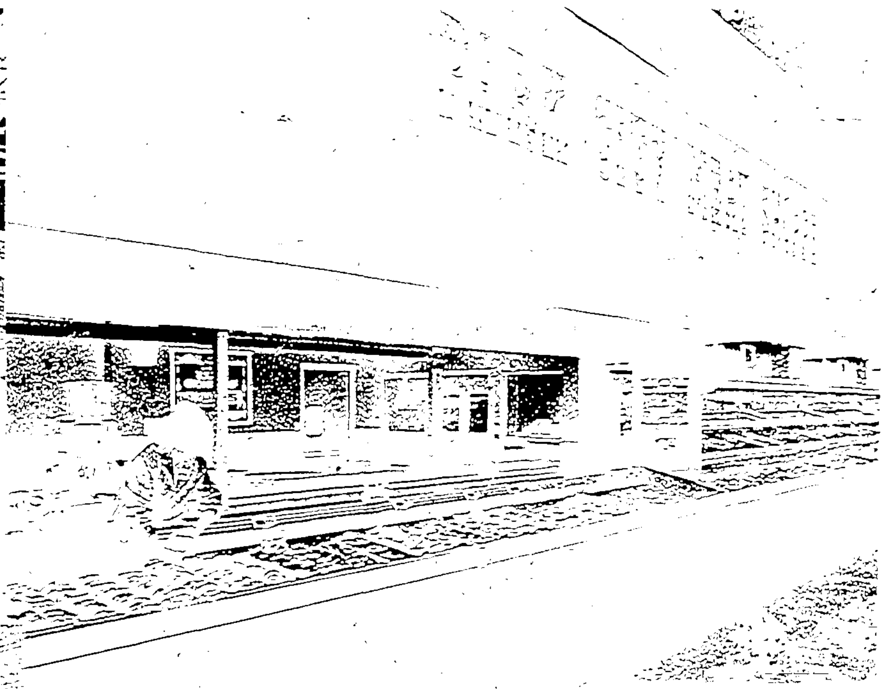


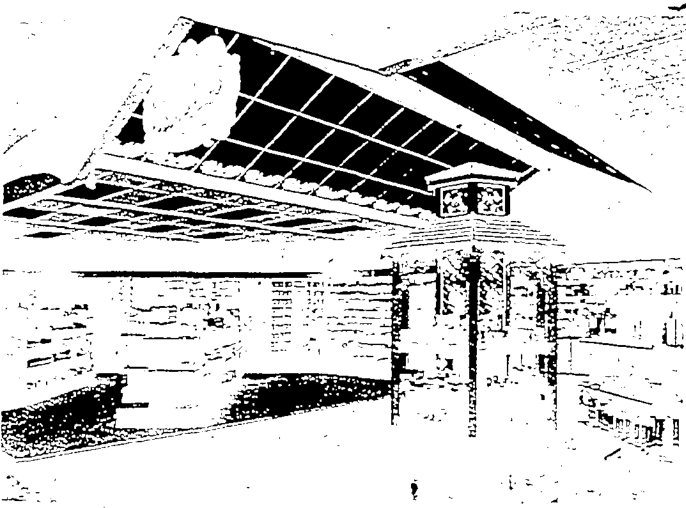


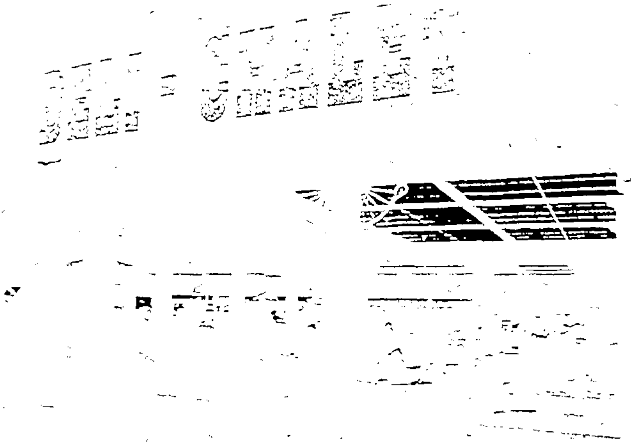


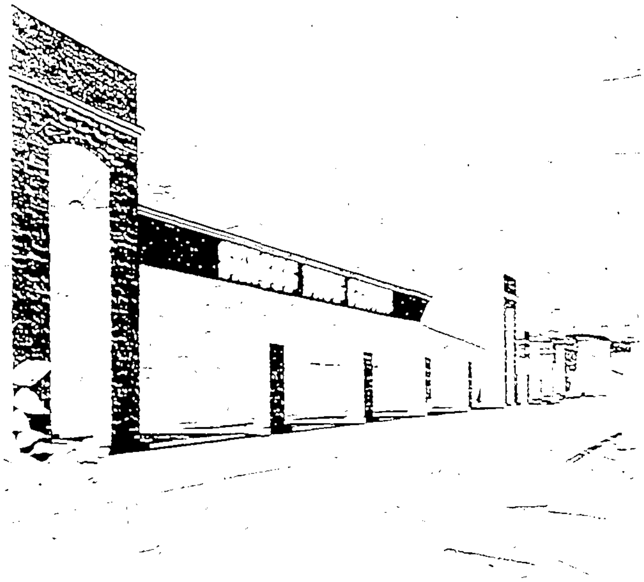


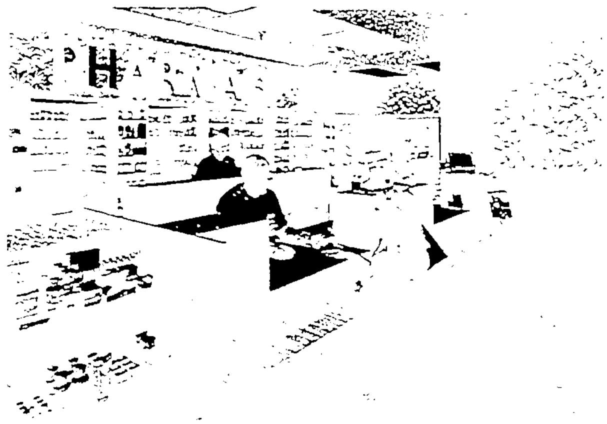










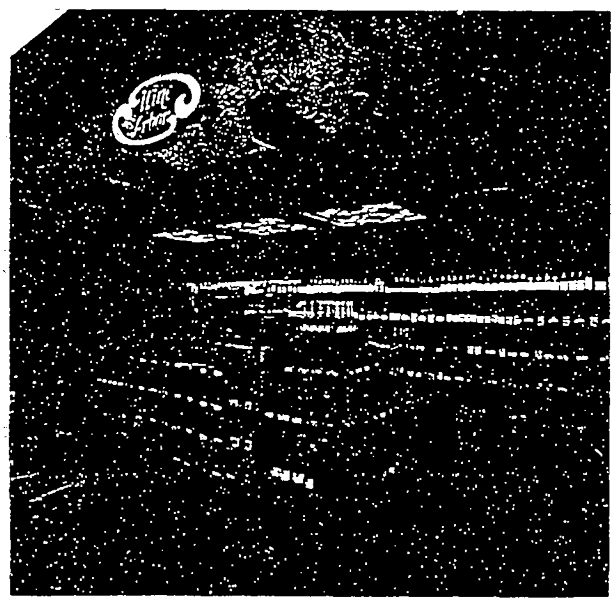


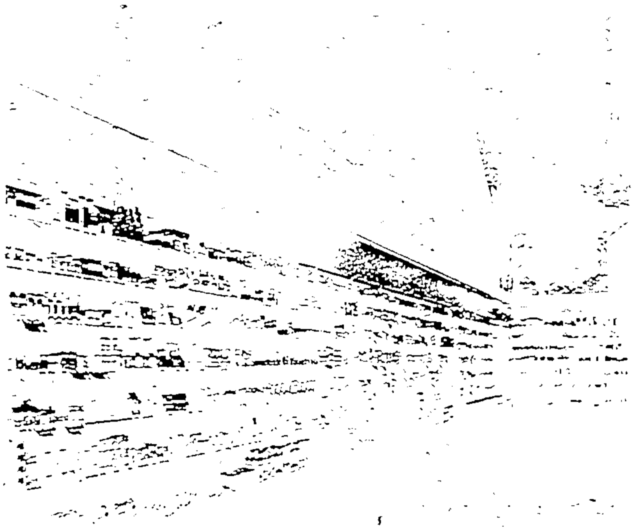
Skaggs Companies, Inc.

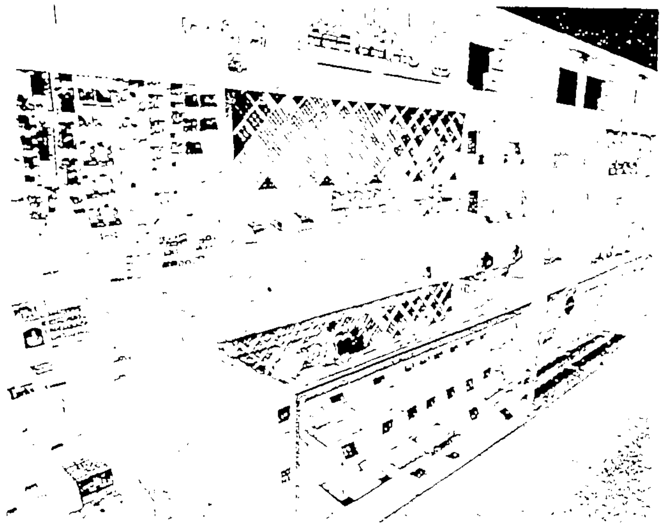
Skaggs is the third largest drug chain in the United States and is also the operator of large combination grocery/drug stores which are discussed in a separate section of this report. This subsidiary, employing 13,500, is organized along regional and district lines to support store operations, with centralized direction provided from the Salt Lake City headquarters.

Skaggs' drug centers represent a firm foundation for growth. These stores are much larger than the typical neighborhood drug store, averaging about 29,000 square feet, and are usually located in suburban areas. The stores stock a broad and appealing range of merchandise including electronics, appliances, home improvement, automotive, cameras, personal care and recreational. The pharmacy is an integral part of the store, and Skaggs benefits from its proprietary drug and cosmetic lines.

Skaggs Companies has an expansion program that has led to the opening of 66 new drug centers over the past five years. In the same time frame, 24 drug stores have been remodeled. At year-end, Skaggs operated 197 super drug stores in 21 states. They will continue opening additional units in established and newer growth markets in the coming year. Five stores are presently under construction.





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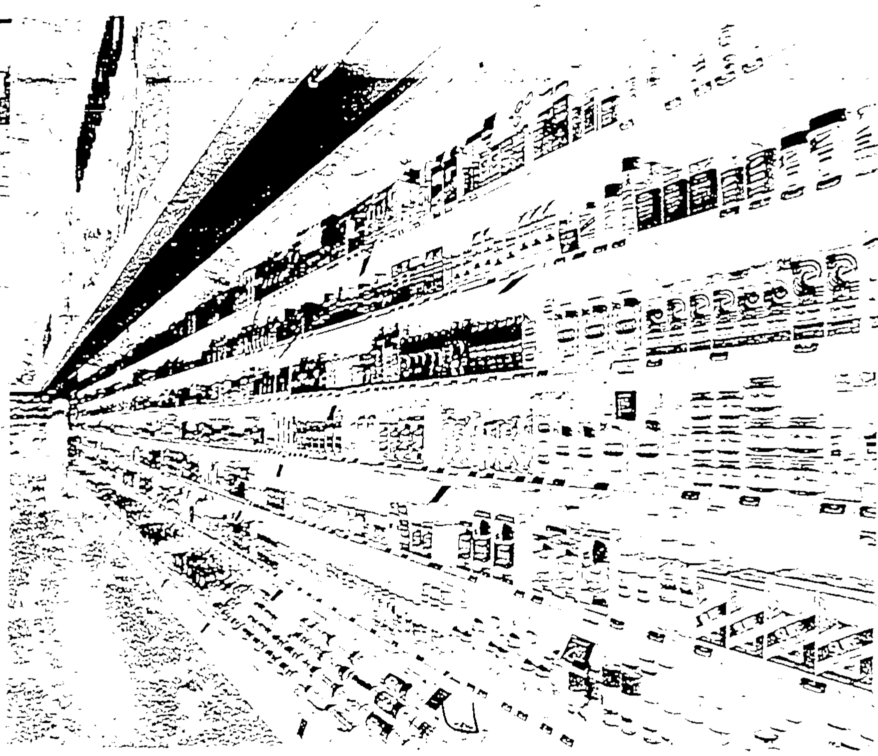
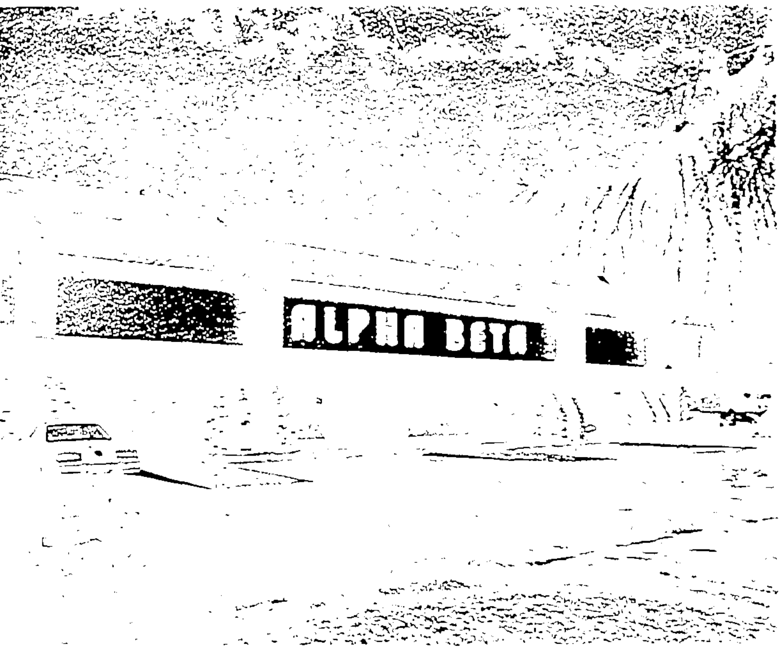




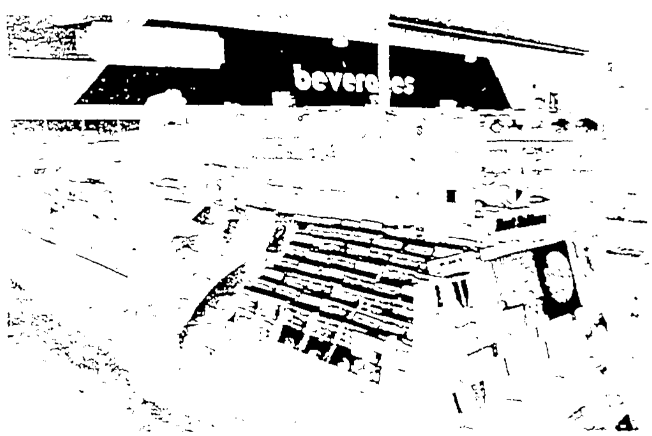
Alpha Beta Company

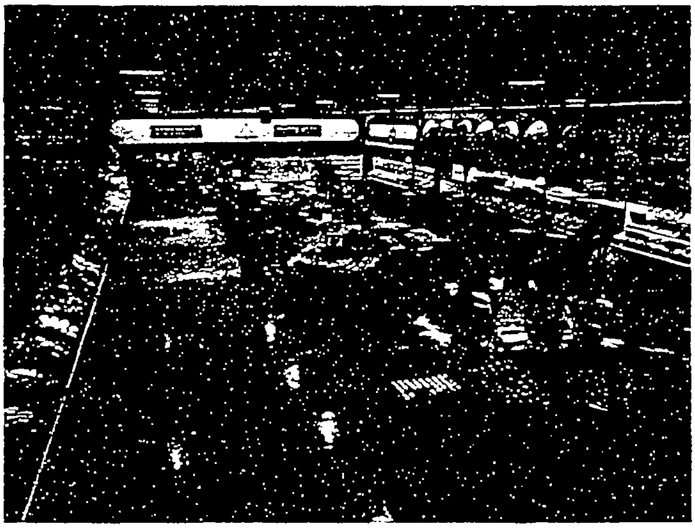
Alpha Beta is well known as one of the leading supermarket chains in California and Arizona. Headquartered in the Southern California community of La Habra, Alpha Beta today operates 321 supermarkets as well as 46 Alphy's restaurants and three Value Fair department stores. The subsidiary has more than 25,000 employees.

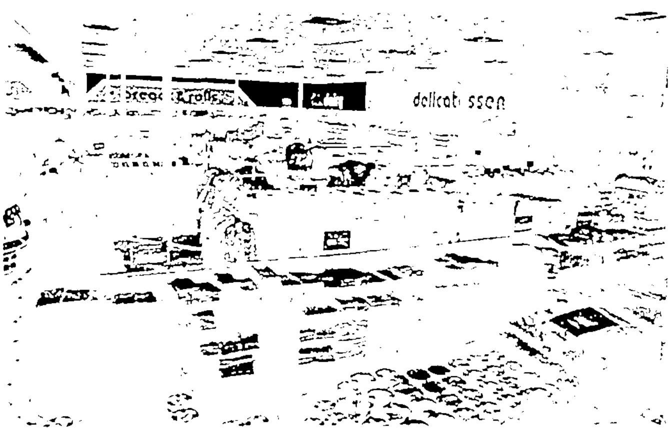
Operations in Arizona, Southern and Northern California are supported by major warehouse and office facilities in La Habra and Milpitas, California. Additional office facilities are located in Riverside, California and Phoenix, Arizona, as well as a meat packing plant in Pueblo, Colorado. All supermarkets sell a wide variety of food and non-food items. The stores feature private label products as well as national and locally-known brands.

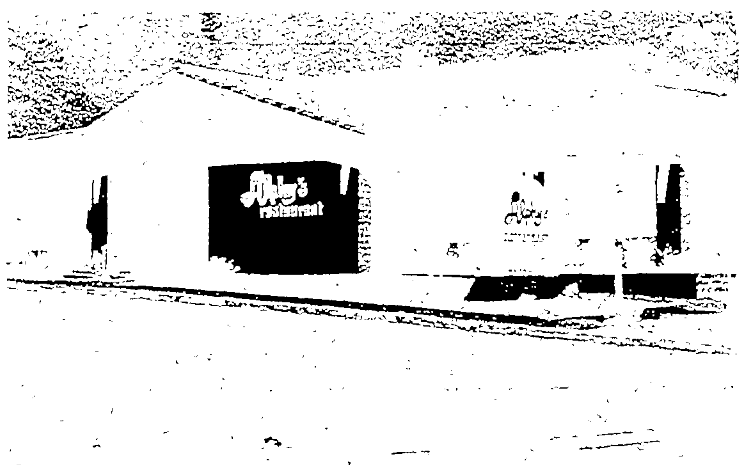
Alpha Beta continues to enhance its capabilities and to expand and upgrade its store base. Over the past five years, 74 new stores have opened and 46 others have been remodeled or expanded. The size of these new stores ranges from 28,500 square feet to over 35,000 square feet. There are 32 stores which are larger than 32,000 square feet.

Continued expansion and facilities enhancement are scheduled for the current year. This program includes the addition of a broad range of general merchandise to the larger stores to provide customers with the beginning of a combination store shopping experience. In the coming months, large combination grocery/drug units are scheduled for opening.

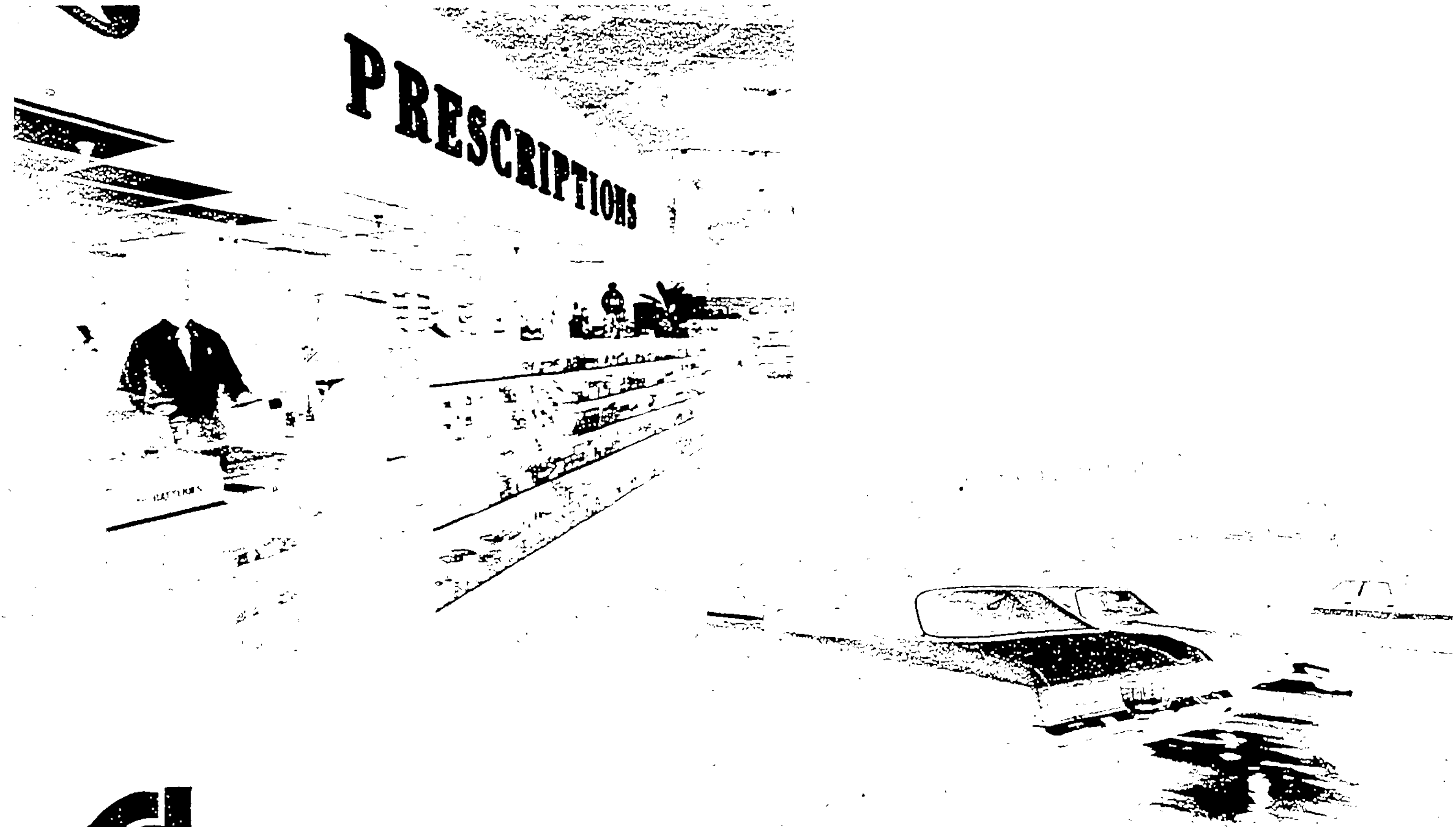








Alphy's Restaurants, owned and operated by Alpha Beta Company, are noted throughout Southern California for their excellent menu and quick service.

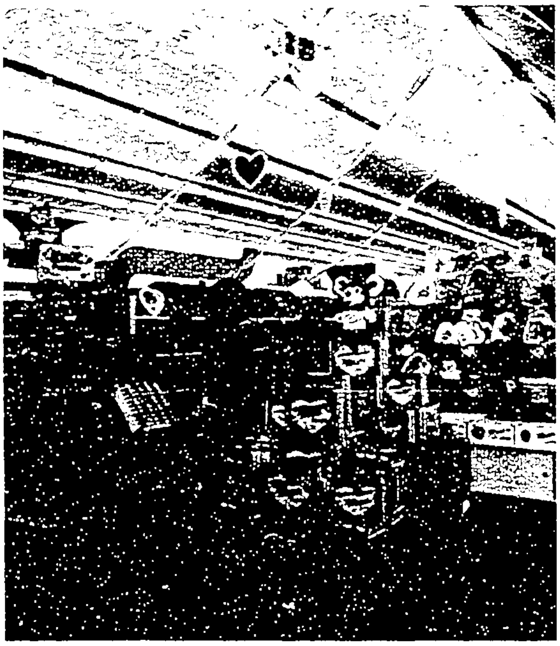


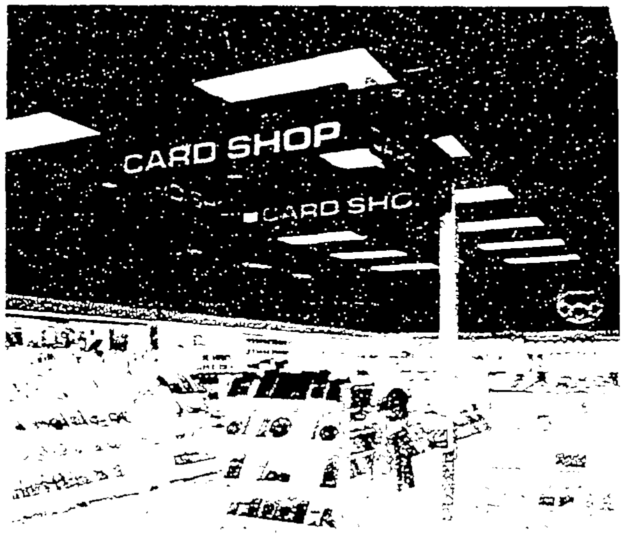
Rea and Derick, Inc.

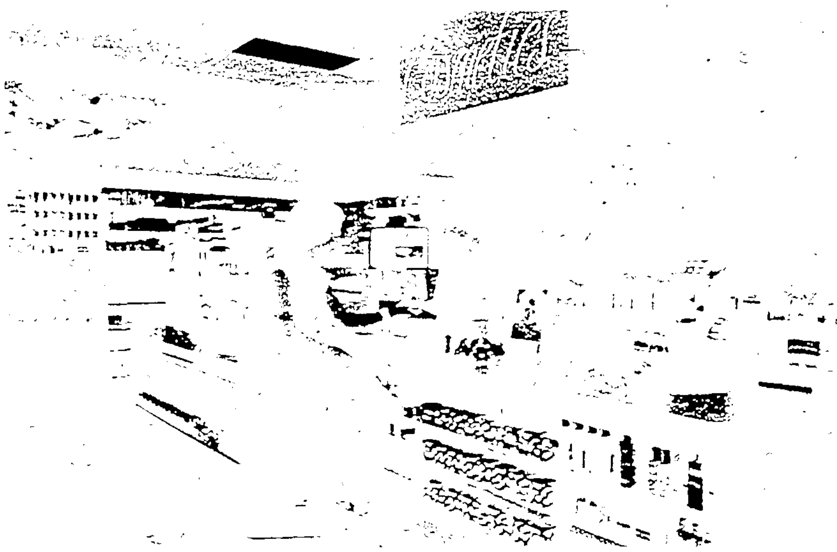
This subsidiary is headquartered in Northumberland, Pennsylvania and operates drug stores in Pennsylvania, New York and Maryland. Most stores are full-line drug stores, including complete pharmacy, health and beauty aids, convalescent aids, magazines, candy, tobacco, cosmetics, toiletries, toys and housewares.

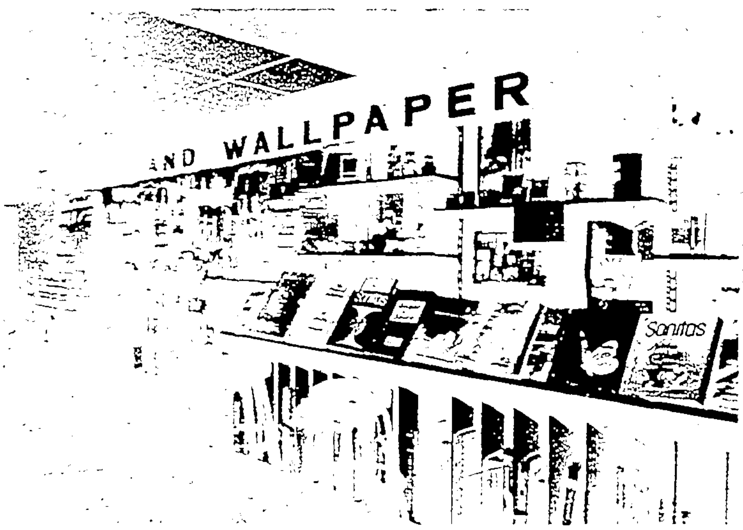
A review of store upgrading and expansion over the past five years shows that 45 stores have been opened and 16 others remodeled or enlarged during the period. Gross space of these stores ranges from 3,200 to almost 19,000 square feet. There are currently 135 stores, and Rea and Derick has 2,200 employees at this time.

These programs directed at enhancing the stores and adding new ones will continue in the future.

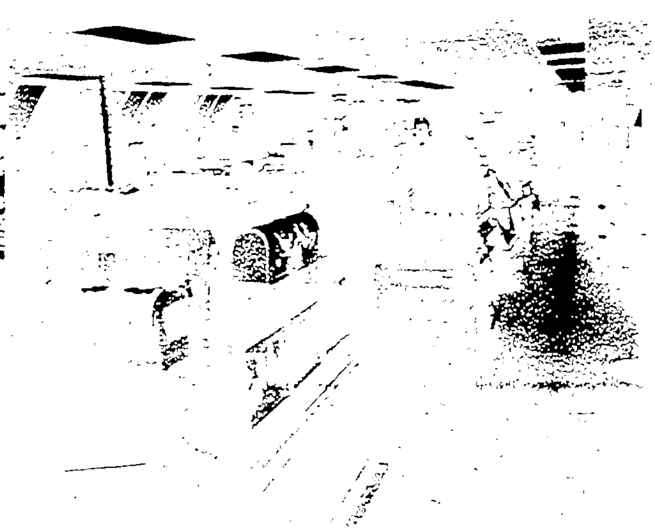


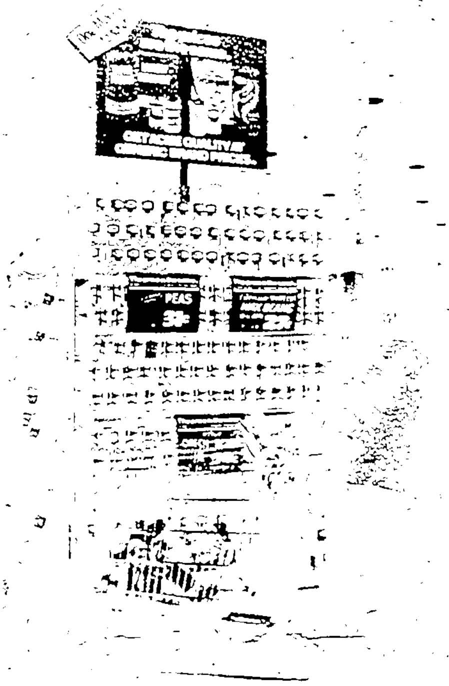


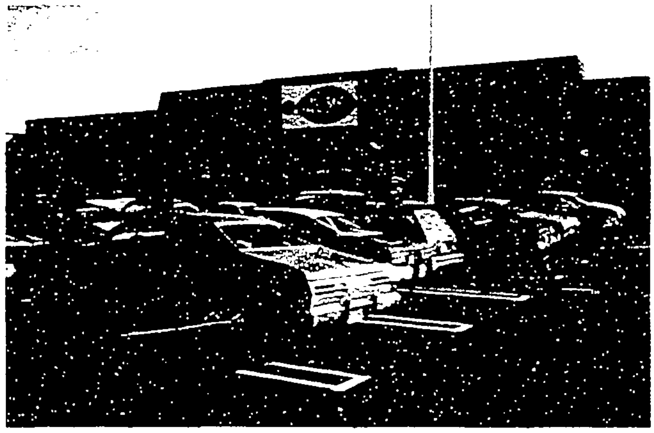




Rea and Derick, Inc. recently opened this "Home Center" store to meet the increasing demand for one-stop home improvement shopping.







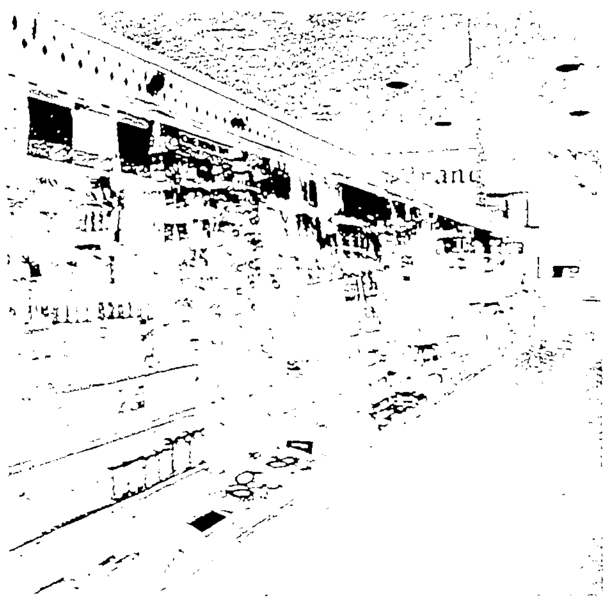
Acme's famous Ideal brand products give the consumer national brand quality at generic brand prices.

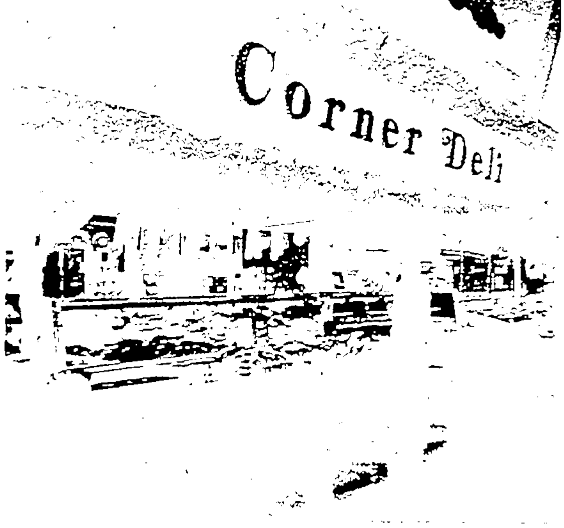
Acme Markets, Inc.

Headquartered in Philadelphia, this subsidiary operates supermarkets in seven states on the Eastern Seaboard under the Acme and Super Saver names.

The supermarkets sell a wide variety of items including food and many non-food products for personal, home and family use. The stores feature national and locally-known brands including private label products. A total of 12 distribution centers and food processing facilities, located in Pennsylvania, Maryland, New Jersey, Wisconsin and Nebraska, provide support to the stores. A new bakery, located in Philadelphia, went into production recently, and work is proceeding on the construction of a new general merchandise distribution center in Lancaster, Pennsylvania.

In recent years, an important thrust of operations has been to close smaller, older, less efficient units and to open new stores and enlarge and upgrade others in order to enhance the total chain. During the past five years, Acme has opened 63 new stores and has additionally remodeled or enlarged 68 others. The average store size is 16,000 square feet, with most new stores in excess of 30,000 square feet. Large combination grocery/drug stores are currently being planned for future development. At year-end, there were 360 stores, and the subsidiary had 21,000 employees.

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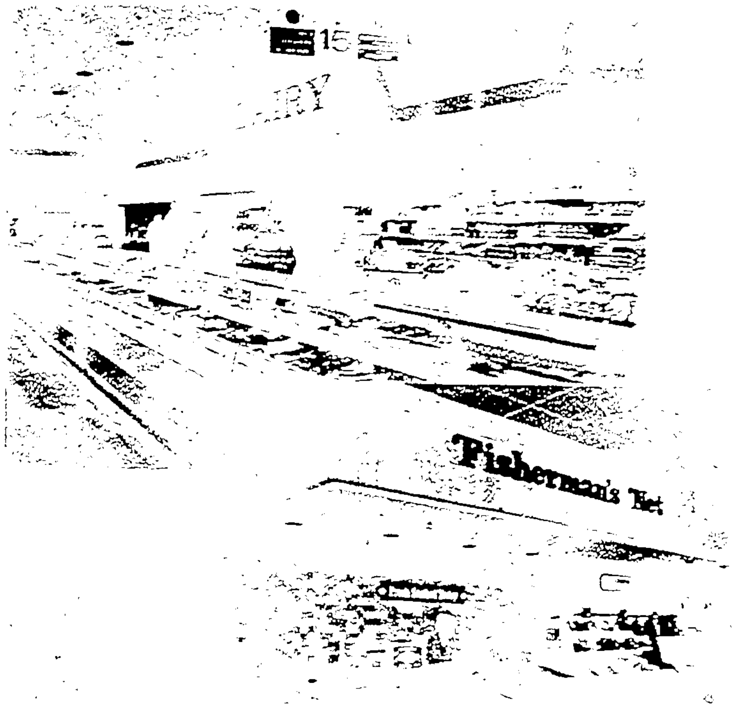
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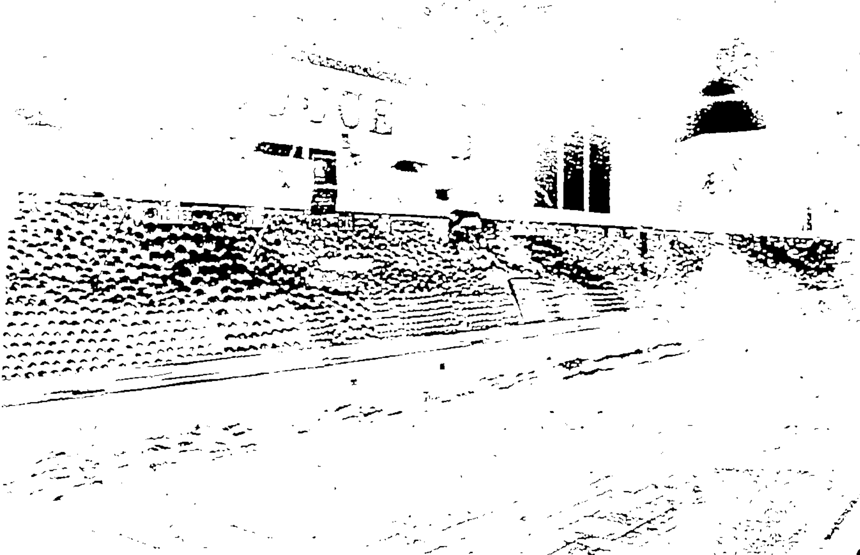

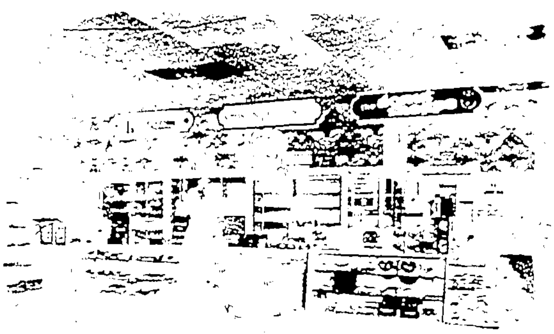


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Management's Discussion and Analysis of the Consolidated Summary of Earnings

The following consolidated summary of earnings of American Stores Company and Subsidiaries (formerly Skaggs Companies, Inc.) for the five years ended February 2, 1980 should be read in conjunction with the consolidated financial statements and related notes of American appearing elsewhere herein.

	53 Weeks Ended	52 Weeks Ended			
	February 2, 1980[1]	December 28, 1978	December 29, 1977	December 30, 1976	January 1, 1976
	(Amounts in Thousands, Except Per Share Data)				
Sales	$3,786,332	$1,089,909	$899,772	$782,444	$625,688
Cost of merchandise sold, including warehousing and transportation expenses	2,926,123	810,063	669,465	594,871	474,883
Interest expense	34,852	6,289	5,966	5,532	5,889
Earnings before income taxes	73,904	47,803	37,303	31,117	23,805
Federal and state income taxes	29,470	22,760	17,629	14,679	11,102
Net earnings	44,434	25,043	19,674	16,438	12,703
Net earnings applicable to common shares	38,519	25,043	19,674	16,438	12,703
Net earnings per common share	$4.36	$3.14	$2.47	$2.10	$1.71
Cash dividends per common share	$ .80	$.725	$ .60	$ .50	$ .40
Average number of common shares outstanding	8,844	7,976	7,976	7,821	7,424

(1) Includes results of former American Stores Company from date of merger on July 26, 1979. The Company changed its fiscal year to the Saturday closest to January 31. See notes to consolidated financial statements for additional details.

1979 Compared to 1978

Several significant changes have occurred during the current year which make comparison between 1979 and 1978 difficult. Skaggs Companies, Inc. merged with former American Stores Company on July 26, 1979 and subsequently changed its name to American Stores Company. This transaction was accounted for as a purchase, and accordingly the results of operations of former American are included in the Company's results of operations from date of merger.

Because the reported sales and earnings for fiscal years 1979 and 1978 are not comparable, the Company has prepared sales, net earnings and earnings per common share data on a pro forma basis assuming the combination of the Company and former American Stores Company had occurred at the beginning of fiscal year 1978 with appropriate adjustments, primarily for imputed interest charges attributable to the financing of the transaction. The pro forma earnings per common share computations are based on the 9,740,000 common shares that would have been outstanding during the periods after deducting $11,220,000 in applicable preferred stock dividends in each year.

The following table presents the sales, net earnings and earnings per common share on a pro forma basis for fiscal years 1979 and 1978. See notes to consolidated financial statements for further details concerning the merger.

	53 weeks ended February 2, 1980	52 weeks ended December 28, 1978
Sales, as reported	$3,786,332,000	$1,089,909,000
Add sales of former American Stores Company not included in reported sales	2,334,631,000	4,048,495,000
Pro forma sales	$6,120,963,000	$5,138,404,000
Net earnings, as reported	$44,434,000	$25,043,000
Add net earnings of former American Stores Company not included in reported net earnings	20,259,000	33,069,000
Less net of tax adjustments not included in reported net earnings (principally imputed interest charges)	(1,911,000)	(7,665,000)
Pro forma net earnings	62,782,000	50,447,000
Less annualized preferred dividends	11,220,000	11,220,000
Pro forma earnings applicable to common shares	$51,562,000	$39,227,000
Pro forma common shares outstanding	9,740,000	9,740,000
Pro forma earnings per common share	$5.29	$4.03

The increase in reported levels of sales, expenses and net earnings for the current year is primarily caused by the inclusion of former American Stores Company results with those of the Company for the current year.

The increase in interest expense reflects not only the addition of the interest expense associated with former American Stores Company but also the interest expense associated with the borrowings made to consummate the merger.

The effective tax rate was 39.9% in 1979 compared with 47.6% in 1978. The lower rate occurred because of the reduction in the Federal corporate income tax rate from 48% to 46% in the current year as well as substantially increased investment tax credits.

Earnings per common share increased 39% in 1979 over 1978 compared to an increase in net earnings for the same period of 77%. This lower percentage increase in earnings per share was caused by additional common shares issued pursuant to the merger as well as the effect of the dividends associated with the preferred shares issued in the merger transaction.

1978 Compared to 1977

Sales for the year were $1,089,909,000, 21% higher than in 1977, an increase of $190,137,000 over the $899,772,000 for 1977, while cost of goods sold increased $141,000,000 or 21% over 1977. The Company's ability to maintain growth reflected higher sales at existing stores, which contributed approximately 16% to the total increase (which came from more goods being sold and price inflation), as well as the impact of new store openings (approximately 5% of the total increase).

In 1978, the Company increased its store base by a total of 14 units, including a net gain of seven super drug centers and seven new combination grocery/drug units. A large number of these units opened in the final quarter, which limited their contribution to 1978 results.

Gross profit expanded by $50,000,000 or 21% over 1977. As a percent of sales, gross margins remained strong at 25.7% of sales in 1978, as compared with 25.6% in 1977.

Continued upward pressure on labor and employee benefit costs resulted in a $36,000,000,

or 22% increase in operating, general and administrative expense over 1977. Due to continuing growth, rent expense increased $1,400,000 or 11%. Depreciation and amortization expense increased 8%, or $900,000. The smaller increase in rent and depreciation reflects the fact that these costs tend to be of a semi-fixed nature.

The Company paid $600,000 more in state personal property taxes, 20% higher than in the prior year. The amount was not large in relation to sales and net earnings, but does reflect the fact that many states in which the Company operates are continuing to levy higher personal and real property taxes.

Interest expense increased 5%, which reflects the higher interest rates paid on capitalized leases and commercial paper in 1978 as compared to 1977.

Pre-tax earnings rose 28% or $10,500,000 over the prior year due to increased sales volume and gross profit dollars achieved during the current year. Such increase also reflects the results of rents, depreciation and amortization, and interest expense being smaller than the sales increase. Net earnings increased $5,400,000, resulting in an increase of 27% in both net earnings and net earnings per common share over the previous year.

The effective tax rate was 47.6%, compared with 47.3% in 1977. The increase was due primarily to the smaller impact of investment tax credits on the Company's higher level of earnings.

Report of Independent Auditors

To the Board of Directors
American Stores Company
Wilmington, Delaware

We have examined the consolidated balance sheets of American Stores Company and subsidiaries (formerly Skaggs Companies, Inc.) as of February 2, 1980, and December 28, 1978, and the related consolidated statements of earnings, common shareholders' equity, and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of American Stores Company and subsidiaries at February 2, 1980, and December 28, 1978, and the consolidated results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst + W

Los Angeles, California
March 18, 1980

Consolidated Statements of Earnings

Fiscal Years Ended February 2, 1980 and December 28, 1978

	53 Weeks 1979	52 Weeks 1978
Sales	$3,786,332,000	$1,089,909,000
Cost of merchandise sold, including warehousing and transportation expenses	2,926,123,000	810,063,000
Gross profit	860,209,000	279,846,000
Operating, general and administrative expenses	762,736,000	228,462,000
Operating profit	97,473,000	51,384,000
Other deductions (income):		
Interest expense	34,852,000	6,289,000
Other income	(11,283,000)	(2,708,000)
	23,569,000	3,581,000
Earnings before income taxes	73,904,000	47,803,000
Federal and state income taxes	29,470,000	22,760,000
Net earnings	$ 44,434,000	$ 25,043,000
Average common shares outstanding	8,844,000	7,976,000
Net earnings per common share	$4.36	$3.14

See notes to consolidated financial statements.

Consolidated Balance Sheets

ASSETS	February 2, 1980	December 28, 1978
CURRENT ASSETS		
Cash	$ 37,552,000	$ 18,959,000
Temporary cash investments	15,841,000	—
Receivables	32,941,000	4,627,000
Inventories, at lower of cost or market	495,177,000	146,947,000
Prepaid expenses	22,603,000	2,211,000
Properties to be developed and sold within one year	7,939,000	—
Total current assets	612,053,000	172,744,000
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	40,810,000	10,598,000
Buildings	77,590,000	18,525,000
Machinery, equipment and fixtures	299,088,000	76,427,000
Leasehold costs and improvements	74,101,000	13,897,000
	491,589,000	119,447,000
Less accumulated depreciation and amortization	76,360,000	45,979,000
Net property, plant and equipment	415,229,000	73,468,000
PROPERTY UNDER CAPITAL LEASES, less accumulated amortization of $28,177,000 in 1979 and $22,394,000 in 1978	144,876,000	51,666,000
OTHER ASSETS	25,415,000	3,408,000
DEFERRED INCOME TAX BENEFITS	4,361,000	3,087,000
	$1,201,934,000	$304,373,000

LIABILITIES AND SHAREHOLDERS' EQUITY	February 2, 1980	December 28, 1978
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 36,187,000	$ 460,000
Current obligations under capital leases	9,074,000	2,097,000
Accounts payable	276,231,000	60,289,000
Accrued liabilities	112,525,000	25,622,000
Federal and state income taxes	14,459,000	8,545,000
Construction and other loans on properties to be sold	2,241,000	—
Total current liabilities	450,717,000	97,013,000
LONG-TERM DEBT, less current maturities	230,423,000	10,946,000
OBLIGATIONS UNDER CAPITAL LEASES, less current portion	169,306,000	58,264,000
OTHER LIABILITIES	19,241,000	436,000
$5.51 CUMULATIVE REDEEMABLE PREFERRED STOCK of $1 par value. Authorized 2,450,000 shares in 1979 and 500,000 shares in 1978; issued 2,036,372 shares at redemption value in 1979	118,110,000	—
COMMON SHAREHOLDERS' EQUITY		
Common stock of $1 par value. Authorized 11,000,000 shares in 1979 and 10,000,000 shares in 1978; issued 10,000,698 shares in 1979 and 7,986,911 shares in 1978	10,001,000	7,987,000
Paid-in capital	96,273,000	47,903,000
Retained earnings	113,814,000	82,003,000
Less cost of common treasury stock; 236,836 shares in 1979 and 10,533 shares in 1978	(5,951,000)	(179,000)
Total common shareholders' equity	214,137,000	137,714,000
	$1,201,934,000	$304,373,000

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Fiscal Years Ended February 2, 1980 and December 28, 1978

	53 Weeks 1979	52 Weeks 1978
SOURCES OF FUNDS		
Net earnings	$ 44,434,000	$25,043,000
Add items charged against earnings not affecting working capital:		
Depreciation and amortization	40,184,000	11,285,000
Deferred income taxes	(1,360,000)	(1,350,000)
Other	245,000	87,000
Total from operations	83,503,000	35,065,000
Proceeds from long-term borrowing	192,726,000	4,866,000
Additions to obligations under capital leases	8,303,000	—
Disposals of owned properties	6,441,000	5,869,000
Disposals of leased property	8,320,000	—
Issuance of preferred stock	118,110,000	—
Issuance of common stock	50,889,000	—
Increase in other liabilities	5,206,000	—
	473,498,000	45,800,000
USES OF FUNDS		
Non-current assets (principally property, plant and equipment) of American Stores Company acquired in merger	374,604,000	—
Less long-term debt and other obligations assumed	219,970,000	—
	154,634,000	—
Expended for property, plant and equipment	122,132,000	36,989,000
Additions to property under capital leases	8,303,000	—
Reduction of long-term debt	61,427,000	577,000
Reduction of obligations under capital leases	15,149,000	2,097,000
Cash dividends	14,101,000	5,783,000
Purchase of treasury stock	6,380,000	—
Other, net	6,210,000	(218,000)
	388,336,000	45,228,000
Increase in working capital	$ 85,162,000	$ 572,000
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and temporary cash investments	$ 48,276,000	$ (3,212,000)
Inventories	344,436,000	25,361,000
Other	55,133,000	(633,000)
	447,845,000	21,516,000
Increase (decrease) in current liabilities:		
Current maturities of long-term debt	35,728,000	(15,000)
Current obligations under capital leases	6,704,000	168,000
Accounts payable	224,781,000	12,478,000
Other	95,470,000	8,313,000
	362,683,000	20,944,000
Increase in working capital	$ 85,162,000	$ 572,000

See notes to consolidated financial statements.

Consolidated Statements of Common Shareholders' Equity

Fiscal Years Ended February 2, 1980 and December 28, 1978

	Common stock	Paid-in capital	Retained earnings	Treasury stock	Total
Balances at December 29, 1977	$7,987,000	$47,816,000	$62,743,000	$ (179,000)	$118,367,000
Net earnings for the 52 weeks ended December 28, 1978			25,043,000		25,043,000
Common dividends—$.725 a share			(5,783,000)		(5,783,000)
Amortization of deferred compensation		87,000			87,000
Balances at December 28, 1978	7,987,000	47,903,000	82,003,000	(179,000)	137,714,000
Net earnings for the four weeks ended January 25, 1979			1,478,000		1,478,000
Net earnings for the 53 weeks ended February 2, 1980			44,434,000		44,434,000
Issuance of 2,013,787 common shares in merger	2,014,000	48,582,000			50,596,000
Purchase of 250,450 common treasury shares				(6,380,000)	(6,380,000)
Issuance of 24,147 common shares from treasury upon exercise of stock options		(315,000)		608,000	293,000
Common dividends—$.80 a share			(7,045,000)		(7,045,000)
Preferred dividends—$3.465 a share			(7,056,000)		(7,056,000)
Amortization of deferred compensation		103,000			103,000
Balances at February 2, 1980	$10,001,000	$96,273,000	$113,814,000	$(5,951,000)	$214,137,000

See notes to consolidated financial statements.

Significant Accounting Policies

Business

The Company, through its subsidiaries, is engaged primarily in the operation of retail stores selling food and drug merchandise.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of certain categories of grocery inventories. Cost of the balance of grocery inventories and all other inventories is computed by either the first-in, first-out (FIFO) or average cost methods.

Depreciation and Amortization

Depreciation and amortization, including amortization of property under capital leases, charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items.

Costs of Opening and Closing Stores

The costs of opening new stores are charged against earnings in the year in which they are incurred. When operations are discontinued and a store is closed, the remaining investment in fixtures and improvements, net of expected salvage, is charged against earnings and provision made for the remaining liability under the lease, net of expected sublease recovery.

Income Taxes

The Company provides deferred income taxes or credits where there are timing differences in recording income and expenses for financial reporting and tax purposes. These timing differences relate primarily to accelerated tax depreciation, capitalized leases, and reserves not currently tax deductible.

The Company reduces its current income tax provision for investment tax credits in the year in which the credits arise.

Pension Costs

Pension costs are actuarially computed and include amortization of prior service cost over periods ranging to 30 years. The Company's policy is to fund pension costs accrued to the extent they are currently deductible for income tax purposes.

Net Earnings Per Common Share

Net earnings per common share are determined by dividing the weighted average number of common shares outstanding during the year into net earnings after deducting dividends attributable to the preferred shares. Common share equivalents in the form of stock options are excluded from the calculation since they have no material dilutive effect on per share figures.

Change in Fiscal Year

During the current year the Company changed the closing date of the fiscal year from the Thursday nearest December 31 to the Saturday nearest January 31. Results for the month of January 1979, which have been credited directly to retained earnings, were: sales $88,426,000, earnings before taxes $2,768,000, income taxes $1,290,000 and net earnings $1,478,000 ($.19 per share). Fiscal year 1979 (53 weeks) ended February 2, 1980. Fiscal years are identified by reference to the calendar year in which such fiscal years commence.

Merger

On May 7, 1979, the Company acquired 46 percent of the outstanding common stock of former American Stores Company for $141,844,000 in cash. Subsequently, on July 26, 1979, the remaining 54 percent was acquired in exchange for 2,036,372 shares of $5.51 cumulative redeemable preferred stock with a redemption value of $58 or a total value of $118,110,000 and 2,013,787 shares of common stock with a market value of $50,596,000. The total purchase price was $315,351,000. The preferred stock will not be redeemable during the first five years after its issuance. Thereafter it will be redeemable, in whole or in part, at the option of the Company at $58 a share plus accrued and unpaid dividends. In addition, the Company will be required to redeem, in each year commencing in the tenth year, 5% of the number of shares thereof initially issued, at $58 a share plus accrued and unpaid dividends.

The merger has been accounted for as a purchase and, accordingly, results of former American's operations have been included in the accompanying financial statements since July 27, 1979. The excess of current value assigned to the net assets of former American Stores Company over the acquisition cost has been allocated to property, plant and equipment and is being amortized over the average remaining useful life of the assets. For the period from May 7, 1979 to July 26, 1979, the Company's 46 percent investment was accounted for under the equity method of accounting. Former American Stores Company is primarily an operator of retail stores selling food and drug merchandise.

The following pro forma summary combines the results of operations of the Company and former American Stores Company as if the acquisition had taken place on December 29, 1977. The data reflects, among other things, adjustments for the excess of current value over acquisition cost and interest on funds expended to acquire the 46 percent interest in former American. Earnings per common share computations give effect to dividend requirements on the preferred stock.

	Fiscal year ended	
	February 2, 1980	December 28, 1978
Net sales	$6,120,963,000	$5,138,404,000
Net earnings	62,782,000	50,447,000
Net earnings per common share	5.29	4.03

LIFO Inventories

The dry grocery inventories of certain of the Company's subsidiaries acquired in the merger with former American Stores Company are valued at last-in, first-out (LIFO) cost. Such inventories amounted to $144,954,000 at February 2, 1980. If the first-in, first-out (FIFO) and average cost methods had been used, inventories would have been $35,234,000 higher at that date. The LIFO reserve increase from merger date to February 2, 1980 was $6,974,000.

Short-Term Borrowings

The following information relates to aggregate short-term borrowings, principally commercial paper:

	1979	1978
Maximum amount outstanding	$22,500,000	$20,000,000
Average amount outstanding (total of month-end outstanding principal balances divided by 12)	12,521,000	5,833,000
Weighted average interest rate (actual interest expense on short-term debt divided by average short-term debt outstanding)	12.11%	9.63%

Under lines of credit arrangements for short-term debt with a group of banks, the Company may borrow up to $94,100,000 on such terms as the Company and the banks may mutually agree. These arrangements are reviewed annually for renewal.

In connection with these lines of credit, the Company has agreed to maintain approximately $650,000 in average compensating balances. During the year, in the normal course of business, the Company maintained balances in excess of these amounts. Compensating balances are not restricted as to withdrawal. In the event the lines are drawn upon, additional cash balances may be required by the banks. There were no borrowings in 1979 or 1978 under these lines of credit.

Long-Term Debt

A summary of long-term debt is as follows:

	February 2, 1980	December 28, 1978
Notes payable to commercial banks, aggregate interest and compensating fees not to exceed 112% of prime, due through 1984	$109,000,000	$ —
Sinking fund debentures		
9⅜% due 1982 through 2001	50,000,000	—
9⅞% due through 1990	16,236,000	—
Revolving credit notes payable to bank, interest rate at prime	10,000,000	—
Loans secured by real estate, interest rates from 4¾% to 10¼% due through 2004	70,374,000	5,006,000
Other	11,000,000	6,400,000
	266,610,000	11,406,000
Current maturities	36,187,000	460,000
Long-term	$230,423,000	$10,946,000

The aggregate amounts of long-term debt maturing in each of the five fiscal years subsequent to February 2, 1980 are: 1980—$36,187,000; 1981—$31,314,000; 1982—$45,542,000; 1983—$34,468,000; 1984—$14,751,000.

The notes payable to commercial banks, associated with the merger of Skaggs Companies, Inc. and former American Stores Company, contain the most restrictive covenants. As renegotiated on March 14, 1980, the loan agreement contains restrictive covenants on, among other things, shareholders' equity, working capital, debt to equity ratio and capital expenditures. In addition, common dividends are restricted to 20% of net earnings after December 28, 1978. Under the most restrictive of these covenants, retained earnings of $3,649,000 at February 2, 1980 are available for payment of common dividends.

The Company has entered into a $25,000,000 revolving credit and term loan agreement with a commercial bank. At February 2, 1980, there was $10,000,000 outstanding under the agreement. Any borrowings outstanding as of January 31, 1984 will be converted into a four-year term loan.

Leases

The Company and subsidiaries lease a majority of the retail stores and certain distribution facilities with initial terms ranging from 15 to 25 years, plus renewal options. Certain store leases provide for additional rentals based on sales volume in excess of specified levels.

The Company has classified its leases as either capital or operating. The summary below shows the aggregate future minimum rental commitments as of February 2, 1980, for both capital and operating leases:

Fiscal year	Operating leases	Capital leases
1980	$ 32,719,000	$ 25,652,000
1981	31,143,000	25,693,000
1982	28,473,000	25,018,000
1983	26,538,000	23,909,000
1984	24,869,000	23,308,000
Thereafter	251,089,000	227,846,000
Total minimum rental commitments	$394,831,000	351,426,000
Less executory costs (such as taxes, insurance and maintenance) included in capital leases		13,113,000
Net minimum lease payments		338,313,000
Less amount representing interest		159,933,000
Obligations under capital leases, including $9,074,000 due within one year		$178,380,000

Rental expense during the fiscal years ended February 2, 1980 and December 28, 1978 was as follows:

	Minimum rentals	Rentals based on sales	Total rentals
February 2, 1980	$27,601,000	$7,573,000	$35,174,000
December 28, 1978	11,968,000	1,846,000	13,814,000

Income Taxes

Federal and state income taxes charged to earnings are summarized below:

	Year ended February 2, 1980	Year ended December 28, 1978
Current:		
Federal	$26,711,000	$22,063,000
State	4,119,000	2,047,000
Deferred:		
Federal	(1,210,000)	(1,350,000)
State	(150,000)	—
	$29,470,000	$22,760,000

The provision for Federal income taxes differs from the amount which would be provided by applying the statutory rate of 46% and 48% in 1979 and 1978, respectively, to earnings before income taxes as follows:

	Year ended	
	February 2, 1980	December 28, 1978
Tax expense computed at statutory Federal income tax rate	$33,996,000	$22,946,000
State income taxes, net of Federal income tax	2,144,000	1,064,000
Investment tax credits	(6,634,000)	(1,228,000)
Other	(36,000)	(22,000)
	$29,470,000	$22,760,000
Effective income tax rate	39.9%	47.6%

Federal income tax returns of Skaggs Companies, Inc. for all years prior to 1975 have been examined by the Internal Revenue Service and all issues have been settled.

The Federal income tax returns of former American Stores Company for its fiscal years 1969 through 1975 have been examined by the Internal Revenue Service, and certain disallowances by the Service are being protested.

Management believes that adjustments, if any, arising from the final tax settlements will not have a material effect on the consolidated earnings or consolidated financial position of the Company.

Stock Option Plans

On May 21, 1975, the shareholders approved a stock option plan for employees, reserving 750,000 shares of common stock. This plan permits the granting of both qualified and nonqualified options. The Company has granted stock options to employees at prices ranging from $.67 to $19.50 a share for nonqualified options and $18.25 a share for qualified options. In 1978, the shareholders approved an amendment to the 1975 Plan providing for Stock Appreciation Rights.

Pursuant to the Merger Agreement between the Company and former American Stores Company, the Company assumed the former American stock option plan with appropriate adjustments to number of shares and exercise prices to give effect to the merger. As adjusted, American stock options are exercisable at prices ranging from $11.18 to $14.08 for qualified stock options and $13.96 for nonqualified stock options.

Under the above-described plans qualified stock options are exercisable on a cumulative basis of five years or less. Nonqualified stock options are exercisable on a cumulative basis of ten years or less. Compensation expense recognized was $304,000 and $87,000 for the fiscal years ended February 2, 1980 and December 28, 1978, respectively. Amounts deferred for future amortization under nonqualified stock option grants at less than market value were $476,000 at February 2, 1980 and $594,000 at December 28, 1978. A summary of changes in shares under option follows:

	Fiscal year	
	1979	1978
Outstanding at beginning of year	352,519	373,119
Former American Stores Company options assumed	180,231	—
Exercised	(24,297)	(950)
Forfeited	(9,650)	(19,650)
Outstanding at end of year	498,803	352,519
Average option price per share	$15.61	$16.85
Reserved for future grant	405,881	396,231

Pension Plans

Substantially all of the employees of the Company and its subsidiaries are covered under pension plans. Employees who are members of bargaining units are covered by their respective plans. For other eligible employees, the Company provides pension benefits through several plans. The actuarially computed value of vested benefits, as estimated by consulting actuaries at the dates of latest valuations, exceeded the value of the pension fund assets and pension expense accruals by approximately $5,356,000. At February 2, 1980, the unfunded prior service costs for all plans amounted to $18,301,000. The amount charged to expense for all plans was $26,790,000 and $2,029,000 for the fiscal years ended February 2, 1980 and December 28, 1978, respectively.

Litigation

As previously reported prior to the merger of former American Stores Company and Skaggs Companies, Inc., in addition to various claims and litigation arising in the normal course of business, the former American Stores Company had been named a defendant in eighteen civil suits (in which Skaggs was named as a co-defendant in twelve) brought by certain alleged producers and feeders of cattle under the Federal antitrust laws in the States of Iowa, Nevada, Texas, Utah and California.

Eleven of these previously described actions (including five in which Skaggs was named as co-defendant) were consolidated for pre-trial proceedings in the Dallas Division of the U.S. District Court for the Northern District of Texas (M.D.L. No. 248). On December 28, 1977, each of these consolidated suits was dismissed by the Federal District Court in Dallas on the basis of the decision of the U. S. Supreme Court in *Illinois Brick Co. v. Illinois*, 431 U.S. 720 (1977), and plaintiffs in all but one of the dismissed actions filed appeals. The order of dismissal did not apply to the remaining cases which had not been consolidated before the court at the time of the decision.

Plaintiffs in the dismissed action who did not appeal filed a similar case in a California state court and, as previously reported, this case was dismissed with prejudice, and the judgment of dismissal was filed on January 10, 1979. Plaintiffs have appealed that dismissal.

On August 17, 1979, the Fifth Circuit Court of Appeals reversed the dismissal of the cases by the Dallas Federal District Court and remanded the cases for further proceedings. On September 14, 1979, the Company, together with other defendants in such actions, filed a Joint Petition for Rehearing and Suggestion for Rehearing En Banc with the Court of Appeals, which is still pending.

Congress is currently considering proposed legislation designed to reverse the decision of the U.S. Supreme Court in the *Illinois Brick* case which could have the effect of reinstating actions dismissed on the basis of that decision.

Since the proceedings in these cases have not yet progressed beyond the early stages of discovery, the Company cannot predict the ultimate outcome. However, management believes that no basis exists for the allegations made against the Company in these complaints and that it is unlikely that these lawsuits will materially affect the consolidated earnings and financial position of the Company.

Quarterly Results of Operations (unaudited)

In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. The information for the first three quarters of 1979 is as presented to shareholders on a quarterly basis. However, for the full year it does not coincide with the information presented in the financial statements because of the change in fiscal year.

	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
		(Amounts in Thousands, Except Per Share Data)			
53 weeks ended January 3, 1980					
Sales	$293,061	$323,784	$1,103,188	$1,694,111	$3,414,144
Cost of merchandise sold	219,198	240,124	855,075	1,322,328	2,636,725
Net earnings	4,855	8,968*	9,502*	18,586	41,911
Net earnings per common share	.61	1.14*	.81*	1.67	4.23
Dividends declared:					
Common	.20	.20	.20	.20	.80
Preferred	—	—	.71	1.3775	2.0875

*Restated for effects of merger.

	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
52 weeks ended December 28, 1978					
Sales	$230,958	$256,461	$265,739	$336,751	$1,089,909
Cost of merchandise sold	171,281	189,800	197,637	251,345	810,063
Net earnings	4,017	5,583	5,418	10,025	25,043
Net earnings per common share	.50	.70	.68	1.26	3.14
Dividends declared:					
Common	.175	.175	.175	.20	.725

Supplementary Information on Inflation and Changing Prices (unaudited)

The following information is presented in accordance with the principles of inflation accounting enumerated in Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. The information attempts to show the impact of changing prices on certain historical financial data. Because the required disclosures are experimental in nature, several different approaches to presenting the data have been mandated, which are outlined in the following paragraphs:

The first approach adjusts the historical cost financial statement dollars to dollars of the same general purchasing power. For example, if the inflation rate is five percent from one year to the next year, then five percent more dollars are needed in the second year to maintain the same general purchasing power. This adjustment to common units of measurement—constant dollars—is accomplished by using an index which measures inflation. Statement 33 prescribes the use of the Consumer Price Index for All Urban Consumers. Therefore, the constant dollar method starts with historical dollars as recorded using generally accepted accounting principles and adjusts these dollars to reflect changes in purchasing power (inflation) using a consumer price index. Under this constant dollar approach the assets acquired and liabilities assumed in the merger with former American Stores Company, as well as its post-merger operations, have been adjusted using the Consumer Price Index from the purchase date, July 26, 1979, through February 2, 1980.

In a second disclosure, the accompanying data are also adjusted to reflect current costs of inventory and property, plant and equipment which have generally increased over time at a rate different from that of the Consumer Price Index. Current replacement costs have been used to value these items, i.e., the specific prices applicable at year-end 1979 to replace inventory and property, plant and equipment. Prices for these items have increased at a different but generally higher rate than general inflation.

In its historical cost financial statements the Company determines cost of approximately two-thirds of its inventories using either the first-in, first-out (FIFO) or average cost methods. The last-in, first-out (LIFO) method is used to value all other inventories and for purposes of estimating current cost such LIFO inventories have been stated at the lower of equivalent FIFO cost or replacement market. Because of the rapid turnover of inventories and the use of LIFO costing for certain items, the cost of merchandise sold, as shown in the financial statements, normally approximates current cost at the time of sale. However, such amounts have been adjusted, where appropriate, for the effects of inflation during the time lag between purchase and sale of merchandise.

For the most part, the replacement data represent replacement in-place and in-kind. No consideration has been given to the replacement of assets with a different type, to improved operating cost efficiencies of replacement assets, and similar situations. The replacement costs used, while believed reasonable, are necessarily subjective. They do not necessarily represent amounts for which the assets could be sold or costs which will be incurred in future periods, or the manner in which actual replacement of assets will occur. Land has been valued based on estimated current market prices. The current costs of the other property, plant and equipment, including buildings under capitalized lease obligations, were developed as follows:

In developing current costs of assets acquired in the merger with former American Stores Company, indexes of construction costs since July 26, 1979 have been applied to the cost assigned to these assets at the merger date.

For all other fixed assets, a review of buildings under construction in or completed during 1979 was performed to determine actual current cost per square foot for each location for building and equipment costs. The current cost for nonretail facilities was determined through specific identification, where possible, or the use of indexes applicable to the type of asset being valued.

Depreciation adjustments, under both the general purchasing power and current cost approaches,

have maintained the same methods, useful lives, and salvage values as used in computing historical cost depreciation.

As a part of this footnote there are several tables included to demonstrate the impact of inflation on the Company's financial statements. The first table provides the net changes in earnings, as reported in historical cost financial statements, to adjust for the effects of general inflation and specific prices. The table shows that net earnings for the Company of $44,434,000 as reported in the historical cost financial statements would have been $7,575,000 when adjusted for general inflation and $11,449,000 when adjusted for specific price changes.

Statement 33 requires that income taxes paid not be modified for the effects of either constant dollar or specific price adjustments. Therefore, the effective income tax rate based on historical earnings increases when compared with constant dollar results and specific price earnings. This increase points up the serious impact on earnings of income taxes in an inflationary economy.

This table also provides the changes in value which occurred during the year. The first is the unrealized benefit, applicable to both methods, due to inflation with resulting decline in purchasing power to the net monetary amounts owed. A monetary asset is money or a claim to receive a sum of money, the amount of which is fixed or determinable without reference to future prices of specific goods or services. A monetary liability is an obligation to pay a sum of money, the amount of which is fixed or determinable without reference to future prices of specific goods or services. Therefore, cash, temporary cash investments, receivables, current liabilities and long-term debt are monetary items. Since the monetary liabilities at year-end 1979 were larger than the monetary assets, an unrealized benefit is shown.

The second adjustment is applicable only to the specific price method and is the increase in value during the year due to increases in the specific prices for inventory and property, plant and equipment over that which is attributed to the increase in value due to the effects of general inflation. Approximately $25,000,000 of this amount is attributable to the LIFO inventories of former American Stores Company. The second table presents values of inventories and property, plant and equipment on the historical cost basis and as adjusted for specific price increases at February 2, 1980.

The third table is a five-year summary of results adjusted for the effects of general inflation and for changes in specific prices. For the years 1975 through 1978 only information applicable for sales, per share dividends, per share market price at year end and the average consumer price index has been shown because this information covering inventories and property, plant and equipment is not available at a cost management feels justifies the results.

Consolidated Statement of Earnings and Other Changes in Ownership Interest Adjusted for Changing Prices for the Fiscal Year Ended February 2, 1980

	As reported	Adjusted for General inflation	Adjusted for Specific prices
Results of operations			
Sales	$3,786,332,000	$3,786,332,000	$3,786,332,000
Costs and expenses:			
Cost of merchandise sold	2,926,123,000	2,957,546,000	2,951,892,000
Depreciation and amortization	40,184,000	45,620,000	47,400,000
Other costs	746,121,000	746,121,000	746,121,000
Total costs	3,712,428,000	3,749,287,000	3,745,413,000
Earnings before income taxes	73,904,000	37,045,000	40,919,000
Net earnings	$ 44,434,000	$ 7,575,000	$ 11,449,000
Changes in carrying values			
Gain from decline in the purchasing power of net amounts owed		$ 49,937,000	$ 49,937,000
Increase in current cost of inventories and property, plant and equipment			$ 117,485,000
Less effect of increase in general price level			76,509,000
Excess of increases in specific prices over increases in the general price level			$ 40,976,000

Inventory and Property, Plant and Equipment Adjusted for Changes in Specific Prices at February 2, 1980

	As reported	As adjusted
Inventories	$495,177,000	$518,635,000
Property, plant and equipment and property under capital leases—net	560,105,000	619,405,000

Five-Year Comparison Of Selected Supplementary Financial Data Adjusted For Effects Of Changing Prices

	1979	1978	1977	1976	1975
		(Amounts in Thousands, Except Per Share Data)			
Sales	$3,786,332	$1,226,008	$1,089,641	$1,008,687	$ 853,140
Historical cost information adjusted for general inflation					
Net earnings	$ 7,575				
Net earnings per common share	.19				
Net assets at year end	387,413				
Historical cost information adjusted for specific prices					
Net earnings	$ 11,449				
Net earnings per common share	.63				
Excess of increases in specific prices over increases in the general price level	40,976				
Net assets at year end	439,753				
Other information					
Gain from decline in purchasing power of net amounts owed	$ 49,937				
Cash dividends declared per common share	$ .80	$ .82	$ .73	$ .64	$ .55
Market price per common share at year end	$ 28.250	$ 31.375	$ 30.625	$ 29.500	$ 40.875
Average consumer price index (1967=100)	219.8	195.4	181.5	170.5	161.2

Corporate Information

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Medical Director
W. E. Peltzer, M.D.

Registrar and Transfer Agent
United California Bank
Trust Division
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Los Angeles, California 90017
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Shareholder Relations
Shareholder inquiries should be directed to
Doris M. Ulrich
Assistant to the Secretary
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Salt Lake City, Utah 84127
Telephone: (801) 539-0112

SEC 10-K Report
A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge from the
Treasurer's Office
Post Office Box 27447
Salt Lake City, Utah 84127

Stock Price

The market price range for American Stores Company common stock, formerly Skaggs Companies, Inc., on the New York Stock Exchange is set forth in the table below. The Company's common and preferred shares are listed on the New York, Philadelphia and Pacific Stock Exchanges under the trading symbol ASC.

	1979		1978	
Quarter*	High	Low	High	Low
First	28½	24¼	25⅝	20¾
Second	26¾	24	24⅜	20¼
Third	32⅛	23½	30⅞	22⅞
Fourth	34½	25½	29½	24¼

*Calendar Quarters

American Stores Company Board of Directors

William R. Deeley[1,3,4]
Vice Chairman of the Board

Thomas W. Field, Jr
President and Chief Executive Officer, Alpha Beta Company*

Williford Gragg[3,5]
Chairman of the Board
United States Fidelity and Guaranty Company

John Hartman[1]
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Attorney at Law
Ray, Quinney and Nebeker

L Tom Perry
Member of the Council of the Twelve, Church of Jesus Christ of Latter day Saints

Isadore M Scott[2,4]
Chairman of the Board, Tosco Corporation

E A Sinclair[5]
Retired—Former Secretary of the Company

L S. Skaggs[1,3,4]
Chairman of the Board President and Chief Executive Officer

Thomas H Sunday[1]
Executive Vice President and General Counsel

I J. Wagner[2,4]
President
The Keystone Company

*Wholly owned subsidiary of American Stores Company

1 Executive Committee, 2 Audit Committee, 3 Finance Committee, 4 Nominating Committee, 5 Compensation and Stock Option Committee

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Chairman of the Board, President and Chief Executive Officer . . . L. S. Skaggs
Vice Chairmen . . . William R. Deeley
John Hartman
Executive Vice Presidents . . . Richard L. Shanaman
Thomas H. Sunday
Vice Presidents . . . Scott Bergeson
Lester G. Jones
Victor L. Lund
James K. Robinson, Jr.

Vice President and Secretary . . . John W. Edstrom
Vice President and Treasurer . . . John G. C. Fuller
Vice President and Controller . . . C. Herbert Fry

Officers of the Principal Operating Subsidiaries

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President and Chief Executive Officer . . . Peter F. McGoldrick
Executive Vice President . . . Robert W. McCahan
Vice Presidents . . . E. Paul Hasler
Donald H. Kohler
James A. Trolier

Vice President and Secretary . . . Francis J. Raucci, Jr.
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Controller . . . Richard G. Dunlop

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Executive Vice President . . . Thomas W. King

Vice Presidents . . . Frederic S. Cantrell
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Edwin R. Markson
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President and Chief Executive Officer . . . Paul A. Morelock
Vice Presidents . . . Clarence J. Everett
Lewis M. Swinger

Secretary and Controller . . . William Fuller

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Senior Executive Vice President . . . Fenton L. Maynard
Executive Vice Presidents . . . Joseph R. Bowman
Val D. Buckmiller
Ralph E. Davis
Arnold E. Ford

Executive Vice President and Controller . . . Calvin O. Drecksel
Senior Vice President . . . Michael T. Miller

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